

9 February 2018

Mr Gerben J Everts
Chair
Monitoring Group

via email: MG2017consultation@iosco.org

Dear Sir

Consultation on the international audit-related standard-setting boards

Thank you for the opportunity to provide a submission on the Monitoring Group consultation *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*.

The Australian Institute of Company Directors (**AICD**) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 42,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD welcomes the Monitoring Group's consultation and its objective of enhancing the governance of the international audit-related standard-setting process. Confidence in financial reporting and, in turn, the integrity of financial markets relies on audits conducted in accordance with standards developed through robust governance systems.

In our view, a holistic review of the current standard-setting governance model is appropriate to ensure its efficacy, independence and transparency.

In this submission we focus on the principles that should underpin the review and any revised governance framework, rather than commenting on specific questions set out in the consultation paper. In this regard, we agree with the Monitoring Group that the standard-setting process should be independent, credible, cost-effective, relevant, transparent and accountable, in order to ensure that the standards developed are in the public interest.

To further enhance public trust and confidence in audit-related standard setting, we believe that any revised governance framework needs to achieve the following outcomes.

International acceptance and consistency of standards

The current standards are adopted in over 120 countries, showing a high degree of confidence with the current standard-setting model and the quality of the auditing and ethical standards produced. Any changes made to the current model need to ensure that existing adopters continue to have confidence in the standard-setting process and continue to adopt international standards. One set of internationally developed standards applied consistently across all countries is vital to the trust and confidence of capital markets allowing capital flows between organisations and economies around the world.

Scalable standards

The current standards developed at the international level are applicable to listed entities and non-listed entities, large organisations and small organisations, for-profit entities and not-for-profit entities, trusts, superannuation funds and the public sector. The standards are currently written, such that they are scalable in any circumstance regardless of the nature of the entity or its size. We consider this to be an important principle to maintain in any new standard-setting model. A failure to do so may lead to the development of inconsistent local standards which could result in confusion and increased costs. It is therefore critical that the auditing standards developed under any future model are applicable to all entities of all sizes and not focus only on listed entities (or public interest entities).

Principles-based standards

The current standards are principles-based. This allows auditors to apply judgement and professional scepticism when adopting standards to ensure they are appropriate for a particular entity's circumstances.

Rules-based standards create challenges to scalability of audits and may create a 'tick box' compliance mentality, detracting from the exercise of professional judgement and thereby undermining audit quality. We therefore support the continued development of principles-based standards under any revised governance framework.

As a final matter, the AICD considers that in order to properly assess any reform options, consultation is required on all of the material aspects of the proposed governance frameworks, including the funding arrangements. A holistic approach to the review is, in our view, preferable to a staggered or piecemeal approach. Accordingly, we consider the current proposal incomplete, and would welcome consultation on a more encompassing framework than has been provided.

We recommend the Monitoring Group review the structure, functions and funding model of comparable organisations, such as the Monitoring Board and the Trustees of the IFRS Foundation, to assist in this regard.

We hope our comments will be of assistance. If you would like to discuss any aspect of this submission, please contact Ms Kerry Hicks, Senior Policy Adviser, on 61 (0) 2 8248 6635 or at khicks@aicd.com.au.

Yours sincerely



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